

Statement of Frank Webster on HB 4274

My name is Frank Webster, and I reside in Meridian Township. I was Executive Vice President of Blue Cross and Blue Shield of Columbus, Ohio from 1994 to 1997 and from 1997 to 1990 ... for 2 years and 4 months ... I was Executive Director of MESSA. Since 1990 I have been involved with healthcare benefit consulting with special emphasis on public school employees.

I am here today to comment on HB 4247, a bill that will bring health claims history to public schools and bring competition to the public school healthcare market where none exists today. The primary purpose of this legislation is to reduce the total cost of healthcare benefits for school employees.

At the very least, this legislation will provide education for school boards and administrators, school employees and the community. The educational value alone demands that this proposed legislation become law.

The claims history called for in this legislation is similar to that provided by Blue Cross and Blue Shield of Michigan (BCBSM) and any other reliable healthcare benefits administrator. It is similar to experience information received by the auto companies and other employee groups in Michigan. The privacy of individual employees is protected.

MESSA, the MEA subsidiary, has a contract with BCBSM that allows MESSA to administer benefit plans that are fully insured by BCBSM and BCS Life. This contract violates the provisions of PA 350, or at the very least, violates the intent and purpose of PA 350 and should be terminated. It increases the expense to Michigan's public schools. BCBSM provides benefits to over 95% of the school market. The public schools pay over \$2.2 billion in premiums each year. \$1.2 billion of this amount is paid to BCBSM through MESSA. This does not include the premium ... about 9% of total premiums ... that MESSA must pay to BCBS Life for benefits that exceed the operating authority of BCBSM.

MESSA will has testified that experience information called for in HB 4274 does not exist. The truthful answer is that the information does exist, but not in the form defined in the proposed legislation. This information can be easily produced by MESSA and BCBSM. MESSA produces a monthly invoice to school districts that defines who is a covered employee. This means that MESSA knows which employees are in each district. Simultaneously, BCBSM accrues claims history by the geographic areas specified by MESSA. To accrue claims experience by these geographic areas, BCBSM must know the school district of each covered employee. It then becomes a minor programming change to produce the claims history for each school district required by the proposed legislation. The argument that the data does not exist is a fallacy.

MESSA and BCBSM may argue that producing this experience information will cost money. BCBSM will collect over \$129 million ... 10.4% of total premium ... for administration of the 2005-2006 group contract with MESSA. BCBSM already has the programming to produce the claims history since BCBSM now produces this information for its other groups.

Some will tell you that the competition called for in this proposed legislation will lead to cherry pickin', leaving MESSA with only bad risk groups. This will just not happen! It is important to remember that over 40% of the public school market is written directly by BCBSM. What might seem like a low risk group for the last two or three years can become a bad risk group in future years? Health insurance companies avoid cherry pickin'. Small groups will be quoted book rates no matter what their prior experience, and a responsible benefit plan purchased by larger groups will dramatically change benefit utilization. Even if market segregation is attempted at some risk to the insurance companies, the legislature needs to keep its focus on the overall goal of this proposed legislation which is to reduce the total cost of healthcare benefits for school employees. Cherry pickin' is more a distracting argument and hype than reality.

This legislation leaves the decision-making authority where it belongs – in the hands of the local school boards and the school employees. This legislation provides the information needed to make informed decisions. Collective bargaining remains at the local level. This legislation opens the door to competition and education. And above all, it provides the potential of reducing the total cost of healthcare benefits for school employees. This legislation merits your favorable consideration.

Frank Webster is a health care costs management consultant. He has been engaged in health care since 1960, is a graduate of The Citadel and Columbia University. He was a hospital administrator from 1962 to 1983, and from 1984 to 1990 was a Blue Cross and Blue Shield executive and health plan administrator. Since 1990, he has been engaged in health care cost management consulting, and the organization and management of health plan purchasing coalitions in Michigan. Frank Webster was recognized in 1998 with the *Lives, Fortunes and Sacred Honor Award* by the Mackinac Center for Public Policy for his contributions to better education in Michigan, and in 2000 was inducted into the *Arland D. Williams Society* by The Citadel, The Military College of South Carolina, for his outstanding service to the Mackinac Center and the Michigan community.

803: HB 4274

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Healthcare Cost Management Strategies

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This **Impact ⇒ HealthCare** report has been prepared as a courtesy to public officials, public education institutions and research groups in Michigan. This report of MESSA health plans and rates for July 1, 2005 is based on review and analysis of the Blue Cross and Blue Shield of Michigan rate application to the Michigan Department of Insurance, BCS Life rate information, information distributed by MESSA, and collateral data and information. Additional information is available from **Impact ⇒ HealthCare**.

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803: MESSA Rates 070105

MESSA Rates Increase by 13.5% - Annual Premium Now \$1.36 Billion

BCBSM increases MESSA rates by 11.5% for 2005-06 plan year

BCBS Life increases rates by 29.4% for same period

MESSA health plan rates from Blue Cross and Blue Shield of Michigan for MESSA's five major marketing areas increased 13.5% commencing July 1, 2005. At the same time, BCBS Life, the national blue plan that insures MESSA benefits that are beyond the authority of BCBSM, increased its rates by 29.4%. BCBS Life premiums were once about seven percent of MESSA's total premium and now represent about 9% of MESSA's total premium. According to the letter which accompanied the rate filing of BCBS Life, these rates – or 9% of MESSA's premium – “are not subject to review and approval” by the Insurance Bureau.

The 13.5% MESSA increase is more than 5 times greater than the consumer price index projected by the Senate Fiscal Agency. The ability of the public schools to absorb this increase given the fiscal restraints being imposed by the state is a question yet to be answered. It is important to remember that Blue Cross and Blue Shield has a virtual monopoly in Michigan's public school market (probably over 95%) given the BCBSM contract with MESSA that covers over 100,000 school employees plus the thousands of school employees that BCBSM serves directly.

MESSA has not announced any plans to subsidize rates for this year, and has not subsidized rates in four years.

MESSA Super Care 1 Family Rates by Area for July 1, 2005, 2004 and 2003, and % of Increase

Area	Rate Per Month July 1, 2005	Percent Increase	Rate Per Month July 1, 2004	Percent Increase	Rate Per Month July 1, 2003
Area A	\$1,399.43	+12.3%	\$1,246.31	+18.0%	\$1,055.78
Area B	\$1,532.07	+11.9%	\$1,369.39	+17.3%	\$1,167.12
Area C	\$1,538.64	+16.6%	\$1,319.54	+14.3%	\$1,154.83
Area D	\$1,206.48	+15.5%	\$1,096.17	+15.8%	\$ 946.50
Area E	\$1,469.59	+11.0%	\$1,323.61	+21.8%	\$1,086.60

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Supplement

This supplement is a continuation of **MESSA Rates Increase by 13.5% - Annual Premiums now \$1.36 Billion** published by **Impact ⇒ HealthCare** for July 1, 2005 MESSA rates.

The MESSA group of public school employees has grown steadily in recent years, whereas the projected settlement for plan year 2004 – 2005 (and also the renewal projection) shows a slight enrollment decline of .45%. Even so, BCBSM still controls over 95% of the total public school market either through MESSA or directly. The BCBSM rate application for MESSA calls for an 11.5% increase commencing July 1, 2005 whereas the projected earned premium per covered employee will increase 13.2%. Administrative fees for BCBSM per covered employee has increased to \$1,286 per employee per year, or 10.4% of earned premium per covered employee.

**Number Employee Months, Net Earned Premium and Administrative Fees
BCBSM Only (Does not include BCS and MESSA subsidy information)**
(From BCBSM Settlement Reports, unless otherwise noted)

Plan Year	Number Employees Per Month (Avg.)	Net Earned Premium (In Millions) Per Year	Earned Premium Per EE Per Year	Annual Percent Increase	Admin Fee (In Millions) Per Year ¹	Admin Fee per Employee Per Year
2005 – 06 ²	100,511	\$1,245.5	\$12,392	13.2%	\$129.3	\$1,286
2004 - 05 ³	100,511	\$1,100.4	\$10,948	16.7%	\$133.9	\$1,013
2003 - 04 ⁴	100,960	\$948.0	\$9,380	14.2%	\$115.0	\$855
2002 - 03	100,059	\$821.6	\$8,214	11.2%	\$99.5	\$744
2001 - 02	95,274	\$703.7	\$7,386	5.3%	\$84.5	\$663
2000 - 01	90,463	\$634.4	\$7,012	7.8%	\$75.4	\$621

The \$19.8 million increase in MESSA surplus (below) for the year ending June 30, 2004 is explained as a \$35.7 million gain from plan management, an (\$18.2) million experience rating adjustment, and a \$2.3 million adjustment for minimum pension liability. The State of Michigan, in a January 1996 agreement with MESSA, allows MESSA to have a surplus (Asset Limit) equal to 10% of the BCBSM premium for the prior year, excluding the depreciated value of buildings and equipment and the value of the Rate Stabilization Reserve. The BCBSM Rate Stabilization Reserve (RSR) balance projected to 6/30/05 is (\$42.9) million. BCBSM has included \$10.7 million as RSR recovery in the rates for 2005-06. BCBSM underwriting losses are reported at over \$82 million for the last three years. All of this loss will be paid by the taxpayers of Michigan.

¹ Administrative fees include \$2.37 per contract month (\$2.4 million for 2005-06) in excess of the standard ERS factors, approved by the Insurance Commissioner in 1994.

² MESSA renewal projection for 7/2005 – 6/2006, effective July 1, 2005

³ MESSA projected settlement for plan year 2004-2005

⁴ MESSA annual settlement for 7/2003 – 6/2004

MESSA Contributions, Profit (Loss), Surplus – 1999-2004
(From MESSA audit reports)

Year End (6/30)	Contributions from, or on behalf of members	Annual Profit (Loss) from MESSA Programs	MESSA Surplus – “Net Assets Available for Benefits”
1999	\$556.8 million	(\$18.3 million)	\$76.8 million
2000	\$635.8 million	\$25.4 million	\$102.2 million
2001	\$683.1 million	(\$0.9 million)	\$101.2 million
2002	\$759.7 million	(\$49.8 million)	\$51.4 million
2003	\$928.4 million	(\$20.4 million)	\$31.0 million
2004	\$1.074 billion	\$19.8 million	\$50.8 million

The audit states (above) that member contributions - costs primarily to public schools – increased 15.7% from \$928.4 million to \$1.074 billion in 2004 for all benefits provided by MESSA. At the same time, its administrative fee income (below) increased 14.7% from \$63.9 million to \$73.3 million. \$69.7 million of this administrative fee income is from BCBSM for the services that MESSA provides to its members by contract with BCBSM. It should be noted that BCBSM fully insures the health benefits of MESSA members, and then contracts with MESSA to service its members. MESSA receives more income from administrative fees than it incurs in total operating expenses, and in 2004 this income exceeded expenses by \$15.9 million, or 27.8%. A TPA – MESSA is a registered Third Party Administrator in Michigan – should be expected to make money from administration of benefits, in this instance from a captive audience.

MESSA Administrative Fee Income and Operating Expense Summary – 1999-2004
(From MESSA audit reports)

Year End (6/30)	MESSA Admin Fee Income from All Sources	MESSA TPA Income from BCBSM	MESSA Operating Expenses
1999	\$48.6 million	\$46.1 million	\$36.8 million
2000	\$46.7 million	\$44.1 million	\$38.2 million
2001	\$48.6 Million	\$45.9 million	\$37.7 million
2002	\$53.9 million	\$51.1 million	\$44.0 million
2003	\$63.9 million	\$61.0 million	\$62.9 million
2004	\$73.3 million	\$69.7 million	\$57.3 million

This analysis was completed by reference to MESSA's official audits, and reference to BCBSM rate applications filed with the Michigan Insurance Department

There are substantial savings for public schools that can be recovered from MESSA health plans and health plans written directly by BCBSM, far more than is needed to fully fund the state budget for public schools. Recovering this money will require courageous action by the Administration, Senate and House.

School boards just don't seem to care. They just call for amendments to Proposal A - more tax dollars to cover for lack of responsible decisions at the local level – or increased state grants. Cutting cost – real cost reductions – at the local level just don't happen! The fact that MESSA premiums for July 1, 2005 increased 3-4 times the rate of inflation is a matter that all school boards must consider, but unfortunately most will not! And what will the Administration, Senate and House do?

